include any area which is adjacent to a disaster area that has suffered damage. This was added in order to include areas that are not damaged severely enough to be declared disaster areas themselves, but which still have suffered damage, including economic losses.

People all across the Midwest are pulling together to fight for their homes, lands and communities. We are thankful for the outpouring of help from our neighbors and the quick action by Federal officials, but, unfortunately, the $2.98 billion that the President has pledged will not be enough. In fact, I would not be surprised if Missouri's losses alone came to that amount.

Similar legislation was enacted after last year's Hurricane Andrew, but it was specific to that disaster only. We need to provide assistance now while the flooding is ongoing; we need to help people get or extend credit. We also must be prepared to provide quick and useful assistance when it is time to rebuild.

In addition, I intend to offer this bill in the form of an amendment to the new disaster supplemental appropriations bill. I urge my colleagues to give their full support for this measure.

I ask that the full text of my statement be printed in the RECORD, along with the full text of the bill.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 1273

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Disaster Credit Relief Act of 1993".

SEC. 2. EMERGENCY WAIVERS OF BURDENSOME REGULATORY REQUIREMENTS FOR DISASTER AREAS.

The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended by adding at the end the following new section:

"SEC. 44. EMERGENCY WAIVERS FOR DISASTER AREAS.

"(a) IN GENERAL.—Each Federal banking agency may, by regulation or order, waive the applicability of any provision of law or regulation to any insured depository institution which is located within, or a significant portion of the service area of which is located within, a disaster area if—

"(1) the waiver takes effect before the end of the 30-month period beginning on the date on which the President determines, pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, that a major disaster exists in the area; and

"(2) the agency determines that the waiver—

"(A) would enhance the institution's ability to make additional credit available in the disaster area; and

"(B) is consistent with the safety and soundness of the institution.

"(b) 3-YEAR LIMIT ON WAIVERS.—Any waiver granted under this section shall expire not later than 3 years after the date of the determination referred to in subsection (a)(1).

"(c) PUBLICATION REQUIRED.—After granting any waiver under subsection (a), an appropriate Federal banking agency shall publish in the Federal Register a statement which—

"(1) describes the waiver; and

"(2) explains how the waiver—

"(A) will enhance the availability of additional credit in the disaster area; and

"(B) is consistent with safety and soundness of any insured depository institution which is subject to the waiver.

"(d) DISASTER AREA DEFINED.—For purposes of this section, the term 'disaster area' means—

"(1) an area in which the President has determined pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, that a major disaster exists; and

"(2) any area which—

"(A) is adjacent to an area described in paragraph (1); and

"(B) has suffered damage (including economic losses) as a result of the same set of circumstances giving rise to the determination referred to in paragraph (1) with respect to the area described in such paragraph.".●

By Mr. BUMPERS (for himself, Mr. WOFFORD, and Mr. KOHL):

S. 1274. A bill to authorize funding for certain Small Business Administration programs, and for other purposes; to the Committee on Small Business.

SMALL BUSINESS CREDIT REFORM ACT OF 1993

● Mr. BUMPERS. Mr. President, today I am introducing for myself, Senator WOFFORD and Senator KOHL the Small Business Credit and Recovery Act of 1993. This bill may be the most important single thing which Congress can pass this year to ensure the availability of adequate small business lending in the coming years. It will do so by placing the Small Business Administration's section 7(a) loan guaranty program—which has lately become as well known as it is meritorious—on a sounder financing footing for years to come. This bill will do something which politicians talk about incessantly, but which almost never is accomplished. The bill will enable the Government to truly serve more people by spending less money.

The now infamous credit crunch for small business, which has also inspired a lot of sympathetic rhetoric from Members of Congress, is a continuing and real daily crisis facing thousands of business owners. Lack of business lending threatens the ability of even the healthiest businesses to meet payrolls and purchase inventories. Heretofore, such businesses had no trouble getting a bank loan. The situation facing a young and aspiring business owner with no track record is one of virtual impossibility.

No Member of this body today is unaware of the credit crunch, and I know for a certainty that the issue is well known to the President and others in the administration. President Clinton announced in March a sweeping package of banking regulatory reforms aimed at increasing small business lending. Unhappily, those reforms are yet to take hold, or perhaps have not filtered down to the level of the loan officer and the bank examiner.

For more than 2 years, the credit crunch has forced unprecedented numbers of businessowners to turn to the Small Business Administration's section 7(a) loan program for capital. This program allows SBA to guarantee between 80 and 90 percent of a small business borrower's loan, so that the bank is partially protected in the event of default. The program enables banks to make much longer term loans and larger loans, with more manageable payment periods, than the bank could make otherwise. The section 7(a) program is a proven job creator and a bargain for the Government, as was confirmed in an excellent recent study of the program by Price Waterhouse.

Just a few weeks ago, Congress approved and the President shortly thereafter signed a $175 million supplemental appropriation for SBA business lending. This appropriation is sufficient to support about $3.2 billion in loan guarantees. The 1993 supplemental was in some ways a rerun of 1992, but with two significant exceptions. This year, SBA had actually run out of money and closed down the 7(a) program at the end of April, leaving businesses with loan applications in process literally stranded for 2 months.

As everyone knows, the Appropriations Committee has been working in recent years under a cap on domestic spending, and we can only expect that situation to continue for as long as these enormous deficits which President Clinton inherited continue to threaten our economic future. So, we must find creative ways to reduce the costs of essential programs like 7(a) if more people are to be served. We have to do more with less—a statement which is frequently made around here, and which I usually assume is a ruse for someone who wants to dodge the bullet. But if this bill is enacted, the SBA will actually be able to do more with less. Mr. President, let me assure the Senate that the Committee on Small Business has no intention of dodging our responsibilities, however difficult they may be. The bill I am introducing today is the largest reform in the history of the SBA 7(a) program. It will significantly reduce the costs of an already efficient program and thereby allow the same appropriated dollars to fund more than twice as many loans. And it will do so without undermining the purposes of the 7(a) program and without placing an undue burden on any borrower or lender.

Miraculous as that may sound, this bill actually reduces the program's costs below the ambitious targets set in the President's fiscal year 1994 budget proposal. Moreover, it does so in ways that in my judgment are more prudent and less onerous for all concerned.

As I alluded to earlier, there has been a virtual run on the SBA section 7(a) program since late in 1991. For 2 years running, Congress has provided supplemental appropriations which almost doubled the regular appropriated level. In 1992, Congress and President Bush agreed to emergency funding to keep the 7(a) program in operation, while this Congress and this President put

the program back in business without deficit financing because we were fortunate to find offsetting cuts in other Federal programs. Finding those offsets, let me tell you, is no easy task, nor is it one which we can rely on in the future.

The reality is that thousands of people who are the primary engine of our economy need help, and there is very little money in the $1.8 trillion Federal budget to help them. Personally, I can find several dozen marginal or useless programs which could be sacrificed or reduced to keep a truly meritorious program like this is operation, and I intend to let my colleagues vote on some of those options during the coming appropriations process.

It bears noting that under current law the 7(a) program will require a subsidy of only 4.92 percent, and perhaps a little less, in 1994. So, each Federal dollar leverages $20 from banks and other lenders who would otherwise not provide loans to small business. At the very least, they would not provide these loans on the same terms and amounts as under the SBA's partial loan guaranty. This program is a bargain in the Federal Government, even without the changes I am proposing, and it is a proven and efficient job creator.

However, we must cut the cost of the 7(a) program if more people are to be served by whatever resources are provided by the Appropriations Committee.

As my colleagues know, the actual loan program levels for the 7(a) program are based on the amounts appropriated for loan guaranty subsidy, divided by the so-called subsidy cost of the loan as determined by the Office of Management and Budget. This subsidy formula, which differs for each program, is complex and takes into account such factors as defaults, ultimate losses, any buy-down of the interest rate, and other factors. To say that the formula is arcane is an understatement, but the subsidy rate is the key to loan programs under the Credit Reform Act which was enacted as part of the 1990 budget agreement.

OMB estimates that the subsidy rate for the 7(a) program for fiscal year 1994 will be 4.92 percent under current law, which is slightly less than the 1993 rate due to an improvement in recoveries on defaulted loans. The subsidy rate will be changed to reflect changes in law enacted by Congress which have the effect of increasing or decreasing a loan program's cost. A 4.92 percent subsidy means that Congress must appropriate roughly $50 million—actually $49.2 million—in order to fund $1 billion in SBA loan guarantees. In other words, the private sector puts up roughly $20 for each Federal dollar.

The 7(a) program has grown from about $3.5 billion in 1991 to $6.8 billion under the 1993 supplemental. The Clinton administration, unlike its recent predecessors, recognize the importance of small business loans to economic growth and has proposed several measures to bring down the subsidy rate. While some of those proposals may have merit, the steps which I am laying out today will, in my judgment, be more effective in reducing costs while at the same time not undermining the program's purposes or effectiveness.

Mr. President, let me emphasize that the reforms in this bill bear no resemblance to budget measures proposed by Presidents Reagan and Bush, which were aimed at reducing demand for SBA loans. For years, the Reagan administration did its best to kill SBA. They hated the loan programs above all else because they believed that people who did not have money did not deserve money.

I always hasten to add that the Reagan administration probably would have succeeded in killing SBA had it not been for the courage and tenacity of the Small Business Committee's former chairman and colleague, Lowell Weicker, who is now the distinguished Governor of Connecticut.

When President Reagan and David Stockman failed to kill SBA, they and their successors proposed each year to make the programs so unattractive or unworkable that no sensible person would participate. For the 7(a) program, the last two administrations proposed raising the up-front guaranty fee charged to SBA borrowers from 2 to 5 percent—in percentage terms, an increase in costs for small business borrowers of 150 percent. Obviously, no one in his right mind would pay this kind of fee, and that was exactly the purpose. Needless to say, these draconian proposals were not adopted by the Congress. The bill I am proposing today contains no increase in the upfront fee paid by borrowers.

Today's bill is no free lunch, but it is a fair deal. While the Reagan and Bush budgets placed all of the burden on the small business borrower, this bill gets its savings from lenders while, at the same time, leaving the program sufficiently attractive and profitable that banks will still consider it a good deal.

The administration budget would have reduced the subsidy cost for the 7(a) program from 4.92 to 2.37 percent. Frankly, I thought that target was overly ambitious. To my pleasant surprise, the steps I am urging will reduce the cost to 2.21 percent, according to estimates by the Small Business Committee staff made in cooperation with SBA staff. This will result in a 1994 program level of slightly over $7 billion under the appropriation figure being considered in the Senate, which is equal to the President's request, but lower than the House number.

This bill makes four important substantive changes in the program. It will:

First, establish a centralized, unified payment processing system for all 7(a) borrowers and lenders. In return for this new system, a 0.25 percent fee will be imposed on the declining principal balance of monthly loan payments. This new system can be established at little or no cost to the Government, using the present fiscal and transfer agent for the section 504 development company loans and for the secondary market in 7(a) loans as a model. This servicing fee will reduce the subsidy cost of the program by 110 basis points. This provision is in lieu of the administration proposal to impose a 50 basis point fee on the declining balance of loans sold in the secondary market. Concern was expressed that the administration proposal would unfairly discriminate against lenders which sell their loans. The proposal I am advancing would treat all loans alike with a smaller fee.

Second, decrease the percentage of SBA's guaranty on loans made under the Preferred Lender Program from the current 80 percent to 75 percent. This change will restore the PLP program to its original practice by repealing an increase in PLP guarantees which was made a few years ago. This change will save 17 basis points.

Third, impose an excess premium guaranty fee equal to one-half of any premium realized by the seller of a loan over 110 percent for loans sold in the secondary market. Some guaranteed loans are being sold in the secondary market for what could be construed as excessive prices based on the Government's guaranty. This change in law will save 73 basis points from the baseline cost.

Fourth, leave the current percentage of guaranty at 90 percent for loans under $155,000, but reduce it from 85 percent to 75 percent on loans greater than $155,000, which have maturities of longer than 10 years. This change seems preferable, in my view, to the administration's proposal to reduce the percentage of guaranty on all real estate loans, including small loans, to 70 percent, and it will produce savings of 71 basis points.

Additionally, the bill will increase the authorization for the SBA 504 program in fiscal year 1993 to $900 million, $1.2 billion in fiscal year 1994, $1.3 billion in fiscal year 1995, and $1.4 billion in fiscal year 1996. This remarkable program, which makes long-term, fixed-rate financing available to borrowers for capital expansion and equipment, has a subsidy cost of only one-half of one percent. The increase in loans this year can be paid for by reprogramming a modest amount of unused funds from other programs within SBA. Authorization for 7(a) loans will also be increased from $6.2 billion in fiscal year 1993 to $7.5 billion, and in 1994 from $7.2 billion to $8 billion.

The Small Business Committee plans to hold a hearing on this bill in the near future and to mark it up as soon as possible. I encourage my colleagues to join as cosponsors of this important legislation.

The bill also contains several technical changes in loan programs which will improve efficiency but do not have

budgetary consequences. I will address these provisions in detail when the bill is reported by the Small Business Committee and considered for passage.

Mr. President, I ask unanimous consent that the bill be printed in the RECORD following my statement and the bill be appropriately referred.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 1274

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Small Business Credit Reform Act of 1993".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

SEC. 2. GENERAL AUTHORIZATIONS.

(a) FINANCINGS FOR FISCAL YEAR 1993.—Section 20(g)(2) of the Small Business Act (15 U.S.C. 631 note) is amended—

(1) by striking "$7,030,000,000" and inserting "$8,455,000,000";

(2) in subparagraph (A), by striking "$6,200,000,000" and inserting "$7,500,000,000"; and

(3) in subparagraph (C), by striking "$775,000,000" and inserting "$900,000,000".

(b) FINANCINGS FOR FISCAL YEAR 1994.—Section 20(1)(2) of the Small Business Act (15 U.S.C. 631 note) is amended—

(1) by striking "$8,083,000,000" and inserting "$11,258,000,000";

(2) in subparagraph (A), by striking "$7,200,000,000" and inserting "$8,000,000,000";

(3) in subparagraph (B), by striking "and" at the end;

(4) by redesignating subparagraph (C) as subparagraph (D);

(5) by inserting after subparagraph (B) the following new subparagraph:

"(C) $2,000,000,000 in loans, as provided in section 7(a)(21); and"; and

(6) in subparagraph (D), as redesignated, by striking "$825,000,000" and inserting "$1,200,000,000".

(c) FINANCINGS FOR FISCAL YEAR 1995.—Section 20 of the Small Business Act (15 U.S.C. 631 note) is amended by striking subsections (k) and (l), as added by section 405(3) of the Small Business Credit and Business Opportunity Enhancement Act of 1992, and inserting the following:

"(l) The following program levels are authorized for fiscal year 1995:

"(1) For the programs authorized by this Act, the Administration is authorized to make $13,360,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

"(A) $9,000,000,000 in general business loans, as provided in section 7(a);

"(B) $3,000,000,000 in loans, as provided in section 7(a)(21);

"(C) $60,000,000 in loans, as provided in section 7(a)(12)(B); and

"(D) $1,300,000,000 in financings, as provided in section 7(a)(13) of this Act and section 504 of the Small Business Investment Act of 1958.

"(2)(A) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $23,000,000 in purchases of preferred securities, $244,000,000 in guarantees of debentures, of which $44,000,000 is authorized in guarantees of debentures from companies operating pursuant to section 301(d) of such Act, and $400,000,000 in guarantees of participating securities.

"(B) There are authorized to be appropriated to the Administration for fiscal year 1995, such sums as may be necessary to carry out subparagraph (A), including salaries and expenses of the Administration.

"(3) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees of not more than $2,180,000,000.".

(d) FINANCINGS FOR FISCAL YEAR 1996.—Section 20 of the Small Business Act (15 U.S.C. 631 note) is amended—

(1) by striking subsections (m) and (n) and inserting the following:

"(m) The following program levels are authorized for fiscal year 1996:

"(1) For the programs authorized by this Act, the Administration is authorized to make $14,960,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

"(A) $10,000,000,000 in general business loans, as provided in section 7(a);

"(B) $3,500,000,000 in loans, as provided in section 7(a)(21);

"(C) $60,000,000 in loans, as provided in section 7(a)(12)(B); and

"(D) $1,400,000,000 in financings, as provided in section 7(a)(13) of this Act and section 504 of the Small Business Investment Act of 1958.

"(2)(A) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $24,000,000 in purchases of preferred securities, $256,000,000 in guarantees of debentures, of which $46,000,000 is authorized in guarantees of debentures from companies operating pursuant to section 301(d) of such Act, and $550,000,000 in guarantees of participating securities.

"(B) There are authorized to be appropriated to the Administration for fiscal year 1996, such sums as may be necessary to carry out subparagraph (A), including salaries and expenses.

"(3) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $2,275,000,000.";

(2) in subsection (o), by striking "(o) The" and inserting "(n) The"; and

(3) in subsection (p)—

(A) by striking "(p) There" and inserting "(2) There", and indenting appropriately; and

(B) by striking "subsection (o)" and inserting "paragraph (1)".

SEC. 3. MICROLOAN PROGRAM AUTHORIZATIONS.

Section 20(k) of the Small Business Act (15 U.S.C. 631 note) is amended—

(1) by striking paragraph (1);

(2) by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively;

(3) in paragraph (1), as redesignated, by striking "and" at the end;

(4) in paragraph (2), as redesignated—

(A) in subparagraph (A), by striking "$60,000,000" and inserting "$80,000,000";

(B) in subparagraph (B), by striking "$35,000,000" and inserting "$30,000,000"; and

(C) by striking the period at the end and inserting a semicolon; and

(5) by adding at the end the following new paragraphs:

"(3) for fiscal year 1995—

"(A) $100,000,000 to be used for the provision of loans; and

"(B) $45,000,000 to be used for the provision of grants; and

"(4) for fiscal year 1996—

"(A) $120,000,000 to be used for the provision of loans; and

"(B) $55,000,000 to be used for the provision of grants.".

SEC. 4. EXTENSION OF STATE LIMITATION ON INTEREST RATES.

Section 112(c) of the Small Business Administration Reauthorization and Amendments Act of 1988 (Public Law 100-590; 102 Stat. 2996) is amended—

(1) by striking paragraph (2); and

(2) by striking "(1) IN GENERAL.—".

SEC. 5. GUARANTEED BUSINESS LOAN PROGRAM AMENDMENTS.

(a) ADDITIONAL GUARANTEE FEES.—

(1) IN GENERAL.—Section 7(a)(18) of the Small Business Act (15 U.S.C. 636(a)(18)) is amended—

(A) by inserting "(A)" after "(18)"; and

(B) by adding at the end the following new subparagraph:

"(B) In addition to fees collected under subparagraph (A), the Administration shall collect a fee charged to the participating lending institution in any case in which a loan made under this section is sold on the secondary market in an amount equal to 50 percent of that portion of the sale price which is in excess of 110 percent of the face value of the loan. Such fee may not be charged to the borrower.".

(2) SUNSET.—The amendments made by paragraph (1) shall remain in effect until September 30, 1996.

(b) GUARANTEE PERCENTAGES.—

(1) IN GENERAL.—Subparagraph (B) of section 7(a)(2) of the Small Business Act (15 U.S.C. 636(a)(2)) is amended to read as follows:

"(B) subject to the limitation in paragraph (3)—

"(i) not less than 70 percent nor more than 75 percent of the financing outstanding at the time of disbursement, if such financing is more than $155,000 and the period of maturity of such financing is less than 10 years, except that the participation by the Administration may be reduced below 70 percent upon request of the participating lender; and

"(ii) not less than 80 percent of the financing outstanding at the time of disbursement, if such financing is a loan under paragraph (16).".

(2) ADDITIONAL AMENDMENTS.—Section 7(a)(2) of the Small Business Act (15 U.S.C. 636(a)(2)) is amended—

(A) in the second sentence (immediately following paragraph (2)(B)(ii)), by striking "85 percent" and inserting "the specified percentages"; and

(B) in the third sentence, by striking "80 percent" and inserting "75 percent".

(c) SYSTEM FOR LOAN PAYMENT AND SERVICING.—Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by adding at the end the following new paragraph:

"(22)(A) For loans guaranteed under this subsection, the Administrator is authorized to establish a centralized loan payment and servicing system.

"(B) Such system shall utilize a fiscal and transfer agent to collect an annual fee on each loan that is equal to ¼ of 1 percent of the declining principal balance of the loan.".

SEC. 6. INTEREST RATE FOR PREFERRED LENDERS PROGRAM.

Section 7(a)(2) of the Small Business Act (15 U.S.C. 7(a)(2)) is amended by inserting after the third sentence, the following: "The

maximum interest rate for a loan under the Preferred Lenders Program shall not exceed the maximum interest rate applicable to other loan guarantee programs under section 7(a), as established by the Administrator.".

SEC. 7. MICROLOAN PROGRAM AMENDMENTS.

Section 7(m) of the Small Business Act (15 U.S.C. 636(m)) is amended—

(1) in paragraph (1)(B)(iii), by striking "$15,000" and inserting "$25,000";

(2) in paragraph (4)(C)(ii), by inserting "to defray costs associated with loan fund administration and" before "to provide";

(3) in paragraph (5)(A), by striking "6 grants" and inserting "12 grants";

(4) by amending paragraph (9)(A) to read as follows:

"(A) IN GENERAL.—The Administration may provide, directly or through an organization described in subparagraph (B), technical assistance for participants and potential participants in the Microloan Demonstration Program to give such participants and potential participants such knowledge, skills, and understanding of microlending practices necessary to operate successful microloan programs."; and

(5) in paragraph (9)(B)—

(A) by striking "3 percent" and inserting "7 percent"; and

(B) by inserting "and nonprofit organizations that have demonstrated experience in providing training support for microenterprise development and financing" after "microlending organizations".

SEC. 8. REGULATIONS.

(a) IMPLEMENTATION.—Not later than 60 days after the date of enactment of this Act, the Administrator of the Small Business Administration (hereafter in this section referred to as the "Administrator") shall promulgate interim final regulations to implement the amendments made by this Act.

(b) IMPLEMENTATION OF POLLUTION CONTROL ASSISTANCE PROVISION.—

(1) TECHNICAL CORRECTION.—Section 7(a)(12)(B) of the Small Business Act (15 U.S.C. 636(a)(12)(B)), as added by section 111(c)(2) of Public Law 100-590, is amended by striking "(b)" and inserting "(B)" and by indenting accordingly.

(2) REGULATIONS.—Not later than 240 days after the date of enactment of this Act, the Administrator shall promulgate final regulations, after an opportunity for notice and public comment, to carry out section 7(a)(12)(B) of the Small Business Act.

SEC. 9. WHITE HOUSE CONFERENCE ON SMALL BUSINESS.

(a) DATES OF CONFERENCES.—Section 2 of the White House Conference on Small Business Authorization Act (15 U.S.C. 631 note) is amended—

(1) by striking "January 1, 1994" and inserting "May 1, 1995";

(2) by striking "April 1, 1994" and inserting "December 31, 1995"; and

(3) by striking "December 1, 1992" and inserting "March 1, 1994".

(b) APPOINTMENT OF COMMISSIONERS.—Section 5(a) of the White House Conference on Small Business Authorization Act (15 U.S.C. 631 note) is amended by striking "The President" and inserting "Not later than 30 days after the date of enactment of the Small Business Credit Reform Act of 1993, the President".

(c) AUTHORIZATION OF APPROPRIATIONS.—Section 9(a) of the White House Conference on Small Business Authorization Act (15 U.S.C. 631 note) is amended by striking "$5,000,000" and inserting "$7,000,000".●

By Mr. RIEGLE (for himself, Mr. SARBANES, Mr. DODD, Mr. KERRY, Mrs. BOXER, Mr. CAMPBELL, Ms. MOSELEY-BRAUN, and Mr. BRADLEY):

S. 1275. A bill to facilitate the establishment of community development financial institutions; to the Committee on Banking, Housing, and Urban Affairs.

THE COMMUNITY DEVELOPMENT BANKING ACT

Mr. RIEGLE. Mr. President, I introduce the Community Development Banking and Financial Institutions Act of 1993. I am joined in introducing this bill by my distinguished colleagues Senators SARBANES, DODD, KERRY, BOXER, CAMPBELL, MOSELEY-BRAUN, and BRADLEY. This initiative was unveiled by President Clinton on July 15. I commend the President on crafting this innovative proposal, which is a part of a larger administration strategy to facilitate the flow of capital into distressed, credit-starved communities. The President has also presented a companion community lending initiative consisting of regulatory reforms to improve enforcement of the Community Reinvestment Act. Together, these initiatives will foster the develop and expansion of grassroots community-oriented lending institutions while, at the same time, encouraging the entire banking industry to serve low income and minority communities.

Last spring's riots in Los Angeles demonstrated how serious the situation has become in our Nation's cities. Now, more than ever, we need new models for revitalization. Inadequate access to capital is one of the primary factors leading to disinvestment and disintegration. Last year, the Banking Committee held several hearings focusing on access to capital in distressed communities and among low and moderate income people. The Committee found significant capital gaps caused by racial discrimination and redlining, changes in the banking and financial services industries, lack of expertise in community lending, and the special characteristics of the community development credit market.

Redlining and discrimination are still significant problems in many communities. A recent Federal Reserve Board study of 1991 HMDA data indicated that African-Americans are twice as likely as their white counterparts to be rejected for a mortgage loan and Latino applicants are 1.4 times as likely to rejected as whites. A more detailed analysis by the Federal Reserve Bank of Boston documented that, after controlling for legitimate credit concerns, minority applicants are still 60 percent more likely than white applicants to be rejected when requesting mortgage loans. Furthermore, a General Accounting Office study revealed that the number of mortgage loans purchased by Fannie Mae and Freddie Mac per homeowner declines as the percentage of minorities in the neighborhood increases.

Consolidation of the banking system has caused concerns about credit availability. Three-quarters of all small business loans are made by small and medium sized banks. Small business loans also comprise a larger portion of the loan portfolios of small and medium sized banks. Loans to small firms make up 95 percent of the loan portfolio at small banks and 77 percent at medium banks, compared to 13 percent at large banks. As banks become larger, they rely increasingly on standardized underwriting and credit criteria. Since investment in many distressed communities often requires creative and flexible financing, this trend toward consolidation has had the effect of discouraging investment in distressed communities.

The Community Development Banking and Financial Institutions Act will plant the seeds of a network of financial institutions dedicated to the revitalization of our inner cities and distressed rural communities. Community development financial institutions are a diverse group of depository and nondepository, for-profit and non-profit institutions whose primary mission is to revitalize their communities by investing in them. They are an innovative mechanism for bringing private capital into low income neighborhoods. They include community development banks, community development credit unions, minority-owned banks, community development loan funds, microenterprise lenders, community development corporations, and other neighborhood development organizations providing credit services. These institutions have impressive track records of facilitating small business development, financing and constructing affordable housing, creating and retaining jobs, and building new ladders of opportunity for low-income residents.

I have been a strong supporter of community-oriented lending institutions. As part of the Housing and Community Development Act of 1992, I authored a demonstration program designed to promote investment in these institutions. This bill expands on that concept.

This bill is intended to build a coherent community lending network that supports and complements the activities of existing commercial lenders and non-profit organizations, and promotes new investment. This network will promote affordable housing, small business, job creation and retention, and other neighborhood revitalization initiatives. This network will focus on more effectively using existing and developing new finance tools, leveraging private investment, building communities, and providing assistance to seed or expand community-oriented lending and development organizations. It is critical to point out that investment in community development financial institutions in no way reduces the obligation of commercial lenders to lend in distressed communities. Community development financial institutions are intended to complement the activities of existing lenders.